WORLD CHRONICLE

UNITED NATIONS

FOR IMMEDIATE RELEASE

DURATION: 28'00" TRANSCRIPT AS BROADCAST

PROGRAMME: **"WORLD CHRONICLE"**

GUEST: Ferdinand Van Dam, Member
Committee for Development Planning

JOURNALIST: Evgueni Menkes, TASS
Linda Fasulo, National Public Radio
Frank Campbell, Inter Press Service

SYNOPSIS

ECONOMIC DEVELOPMENT IN EASTERN EUROPEAN COUNTRIES AND THE SOVIET UNION

Ferdinand Van Dam of the United Nations Committee for Development Planning reviews the overall world economic situation. Professor Van Dam suggests avoiding the shock approach to achieve fast economic reforms in Eastern European countries and the Soviet Union. The transformation of centrally planned into decentralized market economies, he says could be achieved by the step by step method starting with the easy sectors of the economy.

"WORLD CHRONICLE" is produced by the Information Products Division Department of Public Information, United Nations, New York, N.Y. 10017. U.S.A.

Executive Producer: Kamil Taha
Director: Livingston Hinckley
Production Assistant: Eloisa Ugalde

Programme No. 432 Recorded on 25 April 1991

VOICE From United Nations Headquarters in New York, this is **WORLD CHRONICLE**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **WORLD CHRONICLE**.

LITTLEJOHNS: I'm Michael Littlejohns and this is **WORLD CHRONICLE**.

One of the effects of the recent radical political changes in eastern European countries and the Soviet Union has been to reveal the serious economic problems of the region, problems with far-reaching international implications. The transformation of centrally-planned into decentralized market economies is now seen as a task of enormous complexity which cannot be accomplished by a quick transfusion of technology and technicians from the west. How will these changes affect the world economy in general and developing countries in particular?

Our guest today is Ferdinand Van Dam, a member of the United Nations Committee for Development Planning. A national of the Netherlands, Professor Van Dam is the author of a number of publications on international economics.

He will be interviewed here at United Nations headquarters in New York by: Evgueni Menkes of TASS; Linda Fasulo of National Public Radio; and Frank Campbell of Inter Press Service. Mr. Van Dam, welcome to **WORLD CHRONICLE**.

LITTLJOHNS: Professor, the world economic situation seems to be pretty much in a state of turmoil at the moment. There's recession in the United States as we record this programme and in several other countries, there all the problems as we just listened to in the introduction, in eastern Europe and the

Soviet Union, not to mention many other places. Before we get into the question of the impact of all these problems on the developing countries of Asia, Africa, Latin America, how do you see the overall picture economically in the world today?

VAN DAM: I do feel there is not so much reason for gloom. And one of the very interesting developments is that it is very difficult to speak about a world economy. There might once have been a world economy, I'm not so sure about that, but today we do see that different regions, different areas each have more or less development of their own, to a large extent independent from other areas. For example, we look at the east Asian countries, they are growing very fast - they have a problem of growing too fast. When you look to the United States, everybody is speaking about a recession but also everybody is speaking about that we are already approaching the end of the recession. In Europe, I wouldn't say there is a recession at all.

LITTLEJOHNS: Except in Britain.

VAN DAM: Except in Britain but Britain is a case in itself as always. In Africa, you have huge problems, of course, so there is a very different pattern in the world and the idea a of world economy going up and down worldwide, I think that picture is fading away. We have now more or less individual developments in areas.

LITTLJOHNS: But what about the element of interdependence, Professor?

VAN DAM: I think the idea that the world is getting more and more interdependent is largely a fashion instead of a truth. There is, of course, sharp increase in world trade but

READEX FICHE

when you look at where it is taking place, it is mainly inside Europe, in integrating Europe. It's between Europe and east Asia but the rest of the world does not participate in that. The exports of Africa are going down. The exports of Latin America are at a constant level and when you take into account some inflation, they are going down, in fact. The exports of the East Bloc are going down in its vitality. When you look to capital flows, then you will see that 10 years ago, we did have huge capital flows from rich countries to the poor countries. Now, we are in a situation that they go the other way round or they are at least stagnating. The same is true for investment. So the idea that we are getting more and more interdependent may be true as far as environment is concerned or things like that, but economically I doubt it very much.

MENKES: Professor Van Dam, you are a Rapporteur of the Working Group on eastern Europe of the UN Committee for Development Planning. Could you give us a few concrete examples of the recommendations of your Group?

VAN DAM: The first step to do in our Group is to get an idea of the impact of the changes in eastern Europe on the developing countries and so far our conclusions have been that the impact is of a very limited character. You could sub-divide it in four areas. And then you will see that until now at least those markets for commodities, commercial capital, concessional flows and investment are not really very much affected by the developments in eastern Europe. So we cannot have any conclusions from history so to speak. We can only make some prognosis about what it might be in the future, what impact it may have. And there you should make a distinction between two groups of developing countries - the developing countries in general and that small group that has special ties with the Soviet Bloc - Cuba, Mongolia, etc. And I would say that for the

developing countries in general, the impact is minimal, marginal, but for these very small groups with very special ties with the eastern European countries, the impact will be very large.

FASULO: Mr. Van Dam, in terms of eastern Europe, which countries are faring the best in making the transition to a free economy?

VAN DAM: It is very difficult to give a judgment exactly on this point. But I think that on the whole, Hungary, Czechoslovakia and Poland are moving fastest and are doing quite well. In the Soviet Union, there is a kind of stagnation taking place as far as goals and as far as strategies for reforms is concerned, and the same is true for Romania, Bulgaria and Yugoslavia. So I think at present, Hungary and Czechoslovakia have taken the lead in the reform process together with Poland, but in Poland there are a number of recent problems as far as inflation is concerned and unemployment and in that respect, Hungary and Czechoslovakia do better than Poland.

CAMPBELL: Professor, there has been much discussion and concern particularly in the developing countries, about the differential ways in which the developed countries of western Europe and North America have responded to the developmental and other needs of eastern Europe vis-a-vis the response over the years of certain needs of developing countries. The twelve billion dollars which were found so readily for the Eastern European Development Bank, the forgiveness of Poland's debt and things like that are merely examples. As someone who is involved in this whole question of eastern Europe and eastern European development and who in an earlier incarnation was also involved in Dutch aid to Suriname, how do you explain the differences particularly of the developing countries which have

followed all of the prescriptions of the World Bank, and of the IMF and of all the western ideas with respect to development? How do you explain that?

VAN DAM: I think we should make a distinction between the short-term reactions by the European countries and the long-term reactions. It's true that in the short run, European countries have made available considerable aid to the east European countries but they have done so on the spur of the moment, during the process of political transfer taking place in eastern Europe. Now, it's becoming clear that the economic transformation will take a long time and I think that in that longer run, the flow of aid from western Europe to eastern Europe will be of a different kind than in the first months or maybe first two years. As you know, there has been now set up a European Bank for Re-construction and Development for eastern Europe, but not yet one loan has been supplied by this Bank. And I do feel that in the months ahead, we increasingly will consider that Bank as the instrument for the aid. We even might not call it aid because it's on commercial terms. Capital flows to eastern Europe and increasingly countries will refrain from giving aid on concessional terms to eastern Europe so this huge amount of aid in the very beginning of the process, I think that is being of a temporary character and we are nearing the end of that episode.

MENKES: Professor, one of the many serious problems which exist now in the Soviet Union is the problem of codification. A lot of people are talking about market economy and really few know what it is. So what is, from your point of view, market economy in the Soviet Union of today?

VAN DAM: Whether there is today a market economy in the Soviet Union?

MENKES: Yes. Now, what is it? What does it mean to talk about a market economy in the Soviet Union of today?

LITTLEJOHNS: How will the Soviet Union acquire a market economy, I think is the question.

VAN DAM: I think there are many people in the Soviet Union puzzling about that too and there is no guide book. There's no prescription for that. One of the things that we discovered very clearly in our deliberations is that the situation in the eastern European countries is very different and that the way to a market economy for the Soviet Union is a totally different one compared to Hungary or compared to Mongolia. They have a different starting position, economically, historically; there's difference in size. Some countries suffer badly from ethical problems, some countries have problems in the field of law and order. So you cannot say there is one road to heaven. There are many roads to heaven, may be at least. The Soviet Union, I think, is not yet really on the road to a market economy. There is a lack of definition of goals and there is a lack of definition of strategies on how to reach the goals. There have been since a couple of years, deliberation about goals and deliberation about strategies but the real steps have still to be made.

LITTLEJOHNS: The programme is **WORLD CHRONICLE**. Our guest is Ferdinand Van Dam, member of the UN Committee for Development Planning.

FASULO: Mr. Van Dam, how important are people's attitudes and their mentality in the Soviet Union toward moving forward or accelerating the free-market process?

LITTLEJOHNS: There again, there is an enormous difference, for example, between the Soviet Union and Poland and Hungary. In Poland and Hungary always at a certain segment of the economy, has been private economy, has been a kind of market economy. That's much less the case in the Soviet Union, so in Poland and Hungary you have already some beginnings of a market economy which you can cultivate and broaden. In the Soviet Union, you have really to begin from the very start, from the very beginning and that is very much related to your question of if there is a mentality or not. In Hungary and Poland, you find, indeed due to the fact that they did have already a market economy segment in their economy, groups of people with an entrepreneurial attitude much more than you find in the Soviet Union, much more than you find in Romania. How you make people entrepreneurs, I think that will take one generation and it's only to be reached step by step, sector by sector. The easiest sectors are the small service industries - restaurants, hotels, etc.. Then you have to come to the industry and agriculture and then it becomes much more difficult and it becomes very difficult when you speak about the very huge industries, the very huge agricultural enterprises. Now, again in Hungary, Czechoslovakia and Poland, major steps have been set in the area of service industries, hotels, restaurants, etc., shops, and there even the Soviet Union still has to begin. And again, two years ago, we were thinking about one or two years of the great step forward, the great leap forward. But now we are thinking in one or two generations.

CAMPBELL: Professor, there is a point of view that perhaps even for the Third World, some good can come out of this and some good can come out in terms of general development thinking. There has been talk, for example, about the idea of a triangular approach - a triangular form of co-operation in which for example, the capital of the western countries and the raw

materials from the developing countries can be combined for purposes of manufacture or even consumption in the east. How feasible is this and to look at the other side of the coin, the optimism about the medium and long-term benefits for the developing countries, could it be that there would be genuine co-operation and genuine benefit? Could it be that we will be seeing the old trickle-down approach or could it be a total mirage? What are the possibilities?

VAN DAM: About the triangle theory, I'm a bit scared about that. I think one of the problems of the United Nations and the world community in general is that every two years we have a new word with a new fashion. We had the peace dividend last year, a couple of years ago.

LITTLEJOHNS: What ever happened to the peace dividend?

VAN DAM: It disappeared. They never paid it. A couple of years ago, we were speaking about a new international economic order - it disappeared. Now, we have the triangle theory. I'm sure that in another couple of years, nobody knows about what it is all about. So let's not try to escape in major blueprints and major notions. We do face a very practical situation; it's a very concrete situation. Europe has no problems, the United States has no problems, Asia has no problems, the Latin Americans have problems amongst themselves not with the rest of the world, the Africans have real problems and the East Bloc has real problems. And I think the inter-connection between those problems is very limited so when we are looking for solutions, let us do it problem by problem. Let's not try to look for solutions by bringing problems together in triangles or in other even more complicated figures. When you combine problems, you make them less easy to solve than when you split them up in parts. So let's refrain

from triangle and other angles. Let's really talk about the problems that we face in the Soviet Union, that we face in Africa. Those are the big, big things at stake.

MENKES: Professor, let me try to put you in a difficult position for a minute or two. Imagine tomorrow you become a Minister of economic development of the USSR, what would be your first steps?

VAN DAM: I often thought in my life what I would do when I became Santa Claus or something like that, but never the idea that I became a Minister of the Soviet Union. I would skip the idea of the shock approach to begin with. The shock approach requires an enormous social cost and requires an enormous strong administration and both things I think in the Soviet Union are not available. So it has to be an approach step by step and then, as I said before, I would begin with those sectors which are the most easy to commercialize or to privatize, and then try to go further and further to the more difficult sectors. In the mean time, I would try through education, through maybe by getting people from abroad and sending people from the Soviet Union abroad to factories in the West to get some managerial experience etc., to get the right climate to broaden this process but as I said before, it will in my view, take two generations and I have only half a generation to go still, so most of it is out of my scope.

FASULO: How fragile would you say the momentum for economic reform in the Soviet Union is at this point?

VAN DAM: I think there's much more fragility in the political way than in the economic sense of the word. The Soviet Union is not a poor country compared to real poor countries and when the production is going backwards, say, has

fallen 10 percent or 20 percent, people are not dying - they have a bad time. But when production goes down in Africa, goes down 20 percent, it is really catastrophic. So I think that the Soviet Union is in a position from an economic point of view that they can take a lot but politically it is very difficult to keep the union together, to keep law and order, to keep things going, to have people execute orders that are given by the government etc. I think that's the main problem.

CAMPBELL: Professor, how would you characterize in social and economic terms the experience of re-unification in Germany? Is it a temporary disillusionment or a long-term disaster or none of the above?

VAN DAM: The re-unification of Germany, you can't compare to the processes in the other east European countries. For political reasons, those Germanys, in particular West Germany, decided to go ahead as fast as possible which was understandable. Economically, East Germany is a disaster because of the shock, the real shock approach. On the other hand, West Germany is terribly rich and I think this year they are prepared to pay up something like 80 or 100 billion marks to solve the problems in East Germany. Well, as long as you have such a terribly rich uncle, you can go a long time making mistakes and having troubles. I think that from the economic point of view, the unification of the two Germanys and the shock approach that they have taken, demonstrates that the shock approach is a mistake and I think as far as it is as an example for the rest of eastern Europe is that: "Don't do it that way".

LITTLEJOHNS: I saw a report a little while ago, Professor, that 80 percent of people in some countries in eastern Europe who had been polled, said that they considered that they were better off under the previous communist régimes there than they

are today but that only 4 percent favored going back to those régimes. Do you think that there's likely to be a lot of unrest in the area as a result of the problems that they are passing through?

VAN DAM: The process that is taking place, the very fast privatization, the huge growth of unemployment, the steep decline in production, etc.,of course, people are worst off than, say, five years ago. But that doesn't imply that they want to go back to the system of five years ago because they believe and they hope that in the longer run, their development will be in the same five years.

LITTLEJOHNS: Mr. Van Dam, that's all the time we have. Thank you for joining us on this edition of **WORLD CHRONICLE**.

Our guest has been Ferdinand Van Dam, a member of the UN Committee for Development Planning.

He was interviewed here at United Nations Headquarters in New York by: Evgueni Menkes of TASS; Linda Fasulo of the National Public Radio; and Frank Campbell of Inter Press Service.

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **WORLD CHRONICLE**.

****

Transcripts of the programme may be obtained free of charge by sending a stamped, self-addressed envelope to: **WORLD CHRONICLE**, United Nations, Room S-827, New York, New York 10017, USA.

WORLD CHRONICLE is broadcast worldwide and features guests whose work is concerned with major global issues. This programme is a public affairs presentation of this station from United Nations Radio and Television.

Additional information material about the United Nations can be obtained by writing to the Public Inquiries Unit, United Nations, Room GA-57, New York, New York, 10017, USA or the UN Information Centre in your country.